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1 Q. Please explain in full the degree to which Hydro, in assessing alternatives for  
2 allocating the rural deficit, has considered the impact on consumption of pricing  
3 either energy or demand to Labrador interconnected customers above or below  
4 marginal costs.

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7 A. Hydro did not give consideration to marginal costs in assessing alternatives for  
8 allocating the rural deficit. The allocation of the rural deficit is a step in the  
9 embedded Cost of Service methodology. Marginal costs are not used in this  
10 jurisdiction in determining test year revenue requirements by system or by class of  
11 service.

12

13 Rates can be designed to reflect marginal costs on the Labrador Interconnected  
14 System without allocating an unfair portion of the rural deficit to the Labrador  
15 Interconnected System through the test year embedded Cost of Service study.